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INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHEG/AMEMBASSY CAIRO

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SENSITIVE  
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E.O. 12958: N/A  
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SUBJECT: BABY STEPS IN THE EGYPTIAN BOND MARKET

11. (SBU) Key Points

--The GOE has introduced new financial regulations that allow state-owned enterprises to issue bonds and private companies to more easily issue corporate bonds.

--For the first time, the GOE fixed a schedule for releasing treasury bonds.

--These regulation changes are aimed at increasing access to finance for the GOE, state-owned enterprises, and the private sector.

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Simplified Regulations for Issuing Corporate Bonds  
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12. (SBU) Minister of Investment Mahmoud Mohieldin announced in early January that he had amended regulations covering corporate bond issuances. Private businesses no longer need to submit a forecast for the company's financial statements for the period of the bond's maturity. We met with Mohamed Saleh, head of the Capital Markets Unit at the Ministry of Investment on January 13th to discuss changes in financial regulations. He told us that no accountant would certify forecasts of a company's financial statements for future years, which was required under the old regulations. He pointed out that it is unrealistic to make medium and long-term assessments of any company's financials and said that these regulations probably kept many companies from issuing bonds. These changes will make it much easier for private corporations to issue bonds. Under the new regulations, companies need to have a credit rating from a reputable credit rating agency.

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State-Owned Enterprises Allowed to Issue Bonds  
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13. (SBU) In January, the GOE changed its laws to allow state-owned enterprises (SOEs) to issue their own bonds to raise money. This will allow SOEs to raise money to fund large-scale infrastructure

projects like sewage plants, roads, and housing developments, according to Saleh. The Ministry of Investment oversees most state-owned enterprises.

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Fixed Schedule for Treasury Bond Release  
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¶4. (SBU) At the beginning of January, the Ministry of Finance (MOF) set and publicly released a fixed schedule for the issuance of treasury bonds to make them predictable, increase their liquidity, and create more demand for them, according to Mohamed Assaad, Director of Debt Management at the MOF. Assaad told us that he thinks this will allow banks and other investors to factor government bonds into their investment plans for the year, creating a more stable and developed bond market. Assaad joked with us that before the MOF fixed its bond schedule, he would just decide what bonds to issue on a whim. According to the schedule, the MOF will issue 3-year bonds in January, April, July, and October, 5-year bonds in March and September, 7-year bonds in February, and 10-year bonds in August.

¶5. (SBU) Assaad told us that he expects more stability in the bond market to allow the GOE to pay lower rates on treasury bonds it issues to fund the rising GOE deficit. Assaad told us that the GOE is increasingly raising money through bonds because they have a longer maturity than other financing options. Assaad said that the GOE expects to raise LE 15 billion (\$2.77 billion) through the end of March, up from \$10 billion during the same period last year.

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Comment  
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¶6. (SBU) The GOE is looking to the domestic bond market to offer long-term funding for the rising public deficit and the large infrastructure projects that Mohieldin has been talking about publicly. By issuing more bonds to increase the average maturity of Egypt's total debt, the GOE will be able to spread out its debt repayment. The GOE is probably trying to make it easier for companies to raise funds by issuing bonds to make up for the decline in bank lending to the private sector.  
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